Demand and utilization of Micro loan among Micro Entrepreneurs in Nigeria

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Abstract

Micro loan could be used by micro enterprises for productive purposes such as investments, seeds or additional working capital. The study presents empirical findings on the impact of Microfinance (MF) on the welfare and poverty alleviation in Southwest Nigeria. In an attempt to answer the research question for this study, data from field survey conducted among the microfinance banks and their customers in Lagos and Ogun States, was used to analyze the impact of loan received on earnings using the Ordinary Least Squares (OLS) econometric technique. Also, a linear Probability model was specified and estimated to measure the log of odds of obtaining loans from the microfinance banks by the customers. In addition, an analysis of determinants of earnings was done using the Mincer (1973) model. The study found that loan demand is interest rate insensitive but sensitive to availability. It was also established that microfinance programmes have impacted the businesses and lives of the beneficiaries in several positive ways, particularly in their economic circumstances and access to essential life-enhancing facilities and services. The study therefore recommended that MFIs' clients should improve on their level of education, the MFIs should seek long term capital from the Pensions and Insurance Companies so that they can grant larger volume of loan and to greater number of people and the government should tackle the problems of infrastructural development and maintenance.

1. Introduction

The study presents empirical findings on the impact of Microfinance (MF) on the welfare and poverty alleviation in Southwest Nigeria. As indicated in the literature, poverty is number one problem in the world today as depicted by the following startling statistics: three billion people live below US$2 per day (World Bank, 2001); one and half billion people live below US$1 per day; 70-90 per cent of people in the developing world are poor; poverty is number one of the eight Millennium Development Goals (MDGs); and 75 per cent of the world poor are women. It seems as if all the strategies applied in the past to fight poverty have proved ineffective, but the world seems to have found a most promising strategy.

From the historical literature, informal saving and credit unions have operated for centuries across the world. In the middle ages, for example, the Italian monks had created the first official pawn shop (1462 AD) to counter usury practices. In 1515 Pope Leon X authorized pawn shops to charge interest to cover their operating costs. In the 1700s, Jonathan Swift initiated the Irish Loan Fund System, which provided small loans to poor farmers who had no securities. It is on record that the fund gave credit to about 20 per cent of all Irish households annually. In the 1800s, the concept of the financial cooperative was developed by Friedric Wilhelm in Germany. By 1865, the Cooperative movement had expanded rapidly within Germany and other European countries, North America and some developing countries (Bright, Helms, 2006).

In early 1900s, adaptations of the models developed in the preceding century appeared in some parts of rural Latin America (Bright and Helms, 2006). Efforts to expand access to agricultural credit, in Bolivia for example were made unsuccessfully as the rate charged was too low and banks failed. By early 1950 – 1970, experimental programmes were on stream to extend small loans to groups of poor women to enable them invest in micro business. These experiments were initiated by the Grameen Bank of Bangladesh, ACCION International in Latin America and the Self-Employed Women's Association Bank in India (Little Field, Morduch and Hashemi, 2004). The term Microcredit began to be replaced by microfinance in the early 1990. By that time the term had started to include savings, and other services such as insurance and money transfers (Basu et al, 2000).

Microfinance is the provision of financial services, such as loans, savings, insurance, money transfers, and payments facilities to low income groups. It could also be used for productive purposes such as investments, seeds or additional working capital for micro enterprises. On the other hand, it could be used to provide for immediate family expenditure on food, education, housing and health. Microfinance is an effective way for poor people to increase their economic security and thus reduce poverty. It enables poor people to manage their limited financial resources, reduce the impact of economic shocks and increase their assets and income (Robinson, 2001).

Microfinance is no longer an experiment or a wish, it is a proven success. It has worked successfully in many parts of the World – Africa, Asia, Latin-America, Europe and North America. It is safe and profitable; indeed it is the oldest and most resilient financial system in history. The key issues in Microfinance include the realization that poor people need a variety of financial services, including loans, savings, money transfer and insurance which Microfinance provides. It is a powerful tool to fight poverty through building of assets and serving as an absorber against external ties and financial shocks. Microfinance involves building of financial sub-system which serves the poor and its architecture could be easily integrated into the financial system of the nation.

The other key issues of Microfinance are the fact that it can pay for itself and should do so if it is to reach a large number of poor people. Microfinance is not limited to only micro-credit; it is inclusive of other financial services, such as micro-insurance, money transfer and savings. Furthermore, donor funds are meant only to support and assist Microfinance institutions and not compete with them.

In the developed world, leaders talk about the poor and how to alleviate poverty. One hears this often at political and conferences across Europe and other parts of the World. There are also talks of strategies of equitable trade, debt relief, subsidies and aid flows etc. It has become clear that the ultimate strategy for the World to meet the needs of the poor is through microfinance which gives them access to financial services to enable them make everyday decision on: payment of children school fees; payment for food and shelter; meet health bills and meet unforeseen finance needs resulting from flood, fire, earthquake, etcetera. Microfinance may not be able to solve all the problems of the poor, but it certainly puts resources in their hands in order for them to live an enhanced standard of life.

2. Literature Review

Microfinance evolved as an economic development approach intended to benefit low income men and women. It empowers the entrepreneurial spirits that exist among small-scale entrepreneurs and has the ability to strengthen micro enterprises and encourage best practices among operators of small and medium scale enterprise. Microfinance clients are typically self employed, low income entrepreneurs in both urban and rural areas such as small farmers, traders, street vendors, service providers and artisans and small producers such as blacksmiths and seamstresses.

Microfinance provides the financial services that many small farmers need to expand and diversify economic activities to increase their incomes and to improve their lives (Robbinson,2004). Robbinson noted that poor families tend to improve their nutrition and send their children to school when their incomes rise. Invariably, micro finance plays an important

role in promoting good nutrition, education and health as well as decreasing child labour. It also provides a powerful method of building the self confidence of the poor. Microfinance can help to reduce vulnerability while at the same time contributing to agricultural growth in a number of ways (Deshingkar and Start, 2003). It can release existing funds for production purposes, or itself contribute directly to production, or mitigate the impact of shocks and stresses, either internal such as wedding or funerals, or external such as drought or flooding.

Park et al (2003) posited that lack of credit is a barrier to investment and income growth of poor households in developing countries of the world. Access to credit is an antidote to poverty reduction among rural poor. Access to credit enhances the adoption of new and more risky technologies that will improve farmers' levels of income and hence, alleviate their poverty. Additional capital as a result of access to credit enhances the level of household's productive assets, and also raise their expenditure and it is that expenditure that lead to improvement in consumption (food and non-food) of the rural poor (Eswaran et al, 1990 and Haddad et al, 1997). The provision of credit to farmers improves efficiency and expands production (Feder Luo, 1990). Credit is needed to expand the scale of farm operation and for introducing supplementary enterprises that could increase labour utilization and promote steady flow of income. Credit facilities also act as fillip to the process of commercialization of the rural economy (Ogunfowora et al, 1972; World Bank, 1975).

Alemayehu et al (2006) examined the link between finance and poverty using the rich household panel data of urban and rural Ethiopia. The result indicated that access to finance is an important factor in the consumption decision and hence in poverty reduction. Access to micro-credit affects household welfare outcomes through one or more of three pathways viz;
- alleviation of capital constraints for productive activities (such as income generating activities),
- increasing household risk-bearing ability (a buffer to change and crisis), - consumption smoothing (assess to one set of resources can off-set or generate multiplier in other areas thereby enhancing the net productivity of household labour) (Zeller et al, 1997: Piagne and Zeller 2001).

Balogun and Yusuf (2011) noted that the number of research on demand for credit among rural household is still few in developing countries. They however noted that most of the available studies affirm the importance of socio-economic / demographic variables such as transaction cost, collateral risk, and asymmetric information in demand for credit. In a study of the demand for loans from the Ogun State (of Nigeria) Agricultural and Multipurpose Credit Agency by fish farmers, Olaoye, Ashaolu, Idowu, Akintayo and Talabi (2009) found that the educational level of farmers and their years of experience were the significant factors affecting demand for loans.
Rweyemamu, Kimaro and Urassa (n.d) in their study on semi informal micro finance institiutions in Tanzania concluded that transaction cost, disbursement lag period, input expenditure, farmers household income, education and experience are all significant determinants of demand for credit.

Adebosin, Adebayo, Ashagidigbi, Ayanwole (2013), examined the socio -economic determinants of demand for micro finance by farmers in a rural community in Nigeria. The study used the Tobit regression model to analyze the demand for micro finance by farmers in the study area. They found five of the variables examined to have significant effects on the demand for micro finance. The variables are household size, farm size, return from farm activities, gender, and time lag of disbursement of loan. The findings suggest that considerable opportunity exist for increased farm productivity in the area if the finance constraint is effectively handled.

3.1 Research Methodology

This research is designed to study the impact of microfinance banks on the small scale businesses and individual customers for which the banks provide services. The purpose is to assess the role of such services in alleviating poverty and promoting economic development. Lagos and Ogun States constitute the scope of field survey. Questionnaire was administered in a survey conducted among the microfinance banks and their customers in Lagos and Ogun States.
According to CBN (2009), there are three hundred and five (305) MFBs in the SouthWest part of Nigeria. These banks are categorized into those with final licences (169) and those with Provisional Licences (136). Out of the total, Lagos State controls the lion share of 147 MFBs with 74 in the licenced category while 73 have provisional licences. Ogun State, on the other hand has a total of 51 MFBs with 29 licensed while the remaining 22 have provisional licenses. In total, the two States have 198 MFBs, with 123 of them in the licensed category while the remaining 95 have provisional licences. The rationale for the choice of the two States is that most of the MFBs in Nigeria are concentrated there. In this respect, of a total of 253 MFIs in the SouthWest, 243 are located in Lagos and Ogun States respectively. It follows that sample drawn from the States are, all things being equal, more likely to reveal the characteristics of the MFBs and their customers.

A multistage sampling technique was adopted for this study. At the first stage, the Local Government Areas are purposively selected in which case four LGAs were selected from Lagos State (Ifako-Ijaiye, Ikeja, Mushin and Isolo LGAs) and four were also purposively selected in Ogun State (Ado-Odo Ota, Ifo, Owode and Itori/Ewekoro LGAs). At the second stage, the locations of the MFIs in each LGA were also purposively selected. In this case, the target population is the total entrepreneur-customer base of the selected banks. From the books of the banks, a sampling frame of these classes of customers has been generated from which 10 per cent of these customers has been selected, using the stratified random sampling approach. The micro-entrepreneur-customers were stratified by the average size of last loan taken and divided into three categories: (a) Low loan volume, (b) Medium Loan volume, and (c) High Loan volume customers. Each of the categories (a) through (c) were translated to actual Naira value. Low loan volume was bench-marked at a ceiling of N27,579, medium loan volume at a ceiling of N35,602 and the last category at any amount above N58,227

Both secondary and primary data are used in this research work. The primary data were collected through the use of structured questionnaires, and administered by well trained enumerators in the study area. Secondary data were obtained from the records of those microfinance banks surveyed as well as the records of the micro-businesses being studied. Other secondary data were obtained from the relevant Government publications, text books and publications of the Central Bank and the Nigerian deposit insurance corporation. The questionnaire employed for the primary data pilot-tested and found very reliable. Using Statistical Package for Social Sciences (SPSS), the cronbach alpha reliability test provided satisfactory score.

The questionnaire is structured in such a manner that brings out maximum information about the lending activities of microfinance banks to the individual household and small scale business customers. The questionnaire contains a combination of closed and open ended questions. The questionnaire seeks information about the personal data of respondents, volume of credit obtained from the banks, the use to which such loans are put, length of time for repayment, profit profile of small scale business borrowers' etcetera. The questionnaires were administered directly to respondents and responses were collected immediately, except where the respondent asked for more time. This ensures collection of a high percentage of responses, for analysis and results presentation. The schedule of the questionnaire is attached as an annexure to this chapter.

3.2 Model Specification

The objective of this study as stated earlier is to determine whether microfinance has helped to improve the standard of living of customers, in an attempt to answer the research question for this study, data from the survey was used to analyze the impact of loan received on earnings. In addition, an analysis of determinants of earnings was done using the Mincer (1973) model and referred as Model 1.

The model is used to examine the determinant of loan demand among the working poor and to know the extent to which the loans are being used for the purpose it is meant for. In an attempt to address the this objective, the study draws from the data collected from the field survey and these were reported using tables, frequency counts and cross-tabulations to draw inferences. In addition, a loan demand model was specified and estimated using the Ordinary Least Squares (OLS) econometric technique. Also, a linear Probability model was specified and estimated to measure the log of odds of obtaining loans from the microfinance banks by the customers. These models are expressed as Models 1 and 2.

Model 1 – Volume of Loan Demanded Function:

Drawing from the theory of demand in Economics, the demand for loan is a function of the rate of interest, the personal characteristics of the borrower, as well as the enterprise characteristics of the borrower-entrepreneur. Thus, the demand of a customer for loan volume D^L can be expressed as:

$$D^L = f(i, \boldsymbol{B}, \boldsymbol{P}) \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots (1)$$

Where *i* is the rate of interest and it is expected to be negatively related to the dependent variable D^L; $\boldsymbol{B}$ is a vector or enterprise-related variables such as the year of establishment, location,

nature of business, among others; while ***P*** is a vector of personal characteristics of the loanee such as age, formal educational attainment, and so on. Each of these explanatory variables is assumed to be linearly related to the dependent variable.

4.1 Data Analysis and Discussion

4.1.1 Volume of Loan Demanded by Respondents Among the MFIs

The preceding section has shown evidence that the respondents receive loan facilities from their MFIs for different purposes. As shown in Table 4.1.1, one hundred and forty-six (146) respondents (representing 64.3%) of the 227 respondents that answered this question applied for, and received loans, while 81 (representing 35.7%) have never received loan facilities. There are several important features of the loan given by the MFIs. Some of these include the nature of the collateral requirement for the loan, the tenor and the size.

TABLE 4.1.1

DISTRIBUTION OF RESPONDENTS BY LOAN STATUS

Have you ever obtained Loan?		Frequency	Valid Per cent
Valid	Yes	146	64.3
	No	81	35.7
	Total	227	100.0
	Total	321	

Source: Field Survey, 2010

The collateral requirements differ from those required by the regular commercial banks. Rather than place emphasis on physical collateral requirement like land, real estate among others, the MFIs rely more on group and/or personal guarantee, domiciliation of the proceeds of the contract to the financing bank and so on.

TABLE 4.1.2
DISTRIBUTION OF RESPONDENTS BY VOLUME OF LOAN OBTAINED.

CHARACTERISTICS OF RESPONDENTS		**AMOUNT OF LOAN OBTAINED**					
		< ₦20,000 (%)	**₦ 20,000-39,999 (%)**	**₦ 40,000 & OVER (%)**	**AVERAGE LOAN OBTAINED (₦)**	**TOTAL**	
						No.	**%**
AGE	<30	9.4	78.1	12.5	41,943.41	32	19.1

	30-44	9.0	74.0	17.0	57,450.00	100	59.5
	45+	11.1	69.4	19.5	56,194.44	36	21.4
	ALL (No.); %	**(16) 9.6**	**(123) 73.7**	**(28) 16.8**	**54,227**	**168**	**100**
EDUC	NONE	0.0	90.9	9.1	29,091	11	6.5
	PRIMARY	15.4	71.8	12.8	35,821	39	23.2
	SECONDARY	9.2	73.7	17.1	54,897	76	45.2
	POST SECONDARY	7.1	71.43	21.46	76,690	42	25.1
	ALL (No.); %	**(16) 9.6**	**(123) 73.7**	**(28) 16.8**	**54,227**	**168**	**100**
GENDER	MALE	10.8	75.7	13.5	59,540	37	22.0
	FEMALE	9.2	73.3	17.6	52,727	131	78.0
	ALL (No.); %	**(16) 9.6**	**(123) 73.7**	**(28) 16.8**	**54,227**	**168**	**100**
MARITAL STATUS	SINGLE	15.0	60.0	25.0	139,750	20	11.9
	MARRIED	7.6	77.3	15.2	42,600	132	78.6
	D/W/SP	18.75	62.50	18.75	43,250	16	9.5
	ALL (No.); %	**(16) 9.6**	**(123) 73.7**	**(28) 16.8**	**54,227**	**168**	**100**
NATURE OF EMPLOYMENT	WAGE	7.1	35.7	57.1	109,643	14	8.4
	PAID	9.9	77.6	12.5	44,442	152	91.0
	OTHER	0.0	100.0	0.0	20,000	1	0.6
	ALL (No.); %	**(16) 9.6**	**(123) 73.7**	**(28) 16.8**	**54,227**	**168**	**100**
TYPE OF BUSINESS	TRADING	8.3	80.2	11.5	40,167	96	60.0
	SUPPLIER/CONTR	11.5	65.4	23.1	59,200	26	16.3
	TAILORING/FASHION	9.1	86.4	4.5	35,455	22	13.7
	OTHER	18.8	56.3	25.0	117,813	24	10.0
	ALL (No.); %	**(16) 9.6**	**(123) 73.7**	**(28) 16.8**	**54,227**	**168**	**100**
MFI	LAPO	10.6	84.6	4.9	27,579	123	73.2
	OTHERS	6.7	44.4	48.9	127,067	45	26.8

	ALL (No.); %	**(16) 9.6**	**(123) 73.7**	**(28) 16.8**	**54,227**	**168**	**100**
RELIGION	ISLAM	7.7	26.9	15.4	59,436	39	23.2
	CHRISTIANITY	9.4	73.4	17.2	52,653	129	76.8
	ALL (No.); %	**(16) 9.6**	**(123) 73.7**	**(28) 16.8**	**54,227**	**168**	**100**
STATE OF OPERATION	LAGOS	8.0	77.5	14.5	54,719	138	82.1
	OGUN	16.7	56.7	26.7	51,967	30	17.9
STATE OF ORIGIN	NORTH	4.8	52.4	42.9	106,286	21	12.6
	EAST	11.1	80.0	26.9	48,911	45	26.8
	WEST	9.9	75.2	14.9	46,012	101	60.6
	ALL (No.); %	**(16) 9.6**	**(123) 73.7**	**(28) 16.8**	**54,227**	**168**	**100**

Source: Field Survey, 2010

With respect to size or volume of loan received, Table 4.1.2 shows the distribution of the volume of loan received by some selected characteristics of the respondents. In total, the mean loan received from all the MFIs by the respondents that ever received loan was about ₦54, 000. Distributing the loan received into three groups; less than ₦20,000; ₦20,000 – ₦39,999; and ₦40, 000 and over, the modal loan received is ₦20,000 - ₦39,999 group with a frequency of about 74%. The less than ₦20,000 group and that of ₦40,000 groups have frequencies of 9.6% and 16.8% respectively.

The distribution of the volume of loan received by different age-groups shows that the modal age group is 30-44 years (59.5%), which also received the highest average loan amount of ₦57,450. The group with the next higher mean loan is the group of 45 years and above who are 21% of all age groups and having a grand mean loan of ₦56,194. The volume of loan received increases with age which suggest that the older the customers are, the more responsible they are in terms of loan repayment which makes it easier for MFIs to grant more loan facilities. With respect to formal educational attainment, the mean loan received increases with the level of education attained. In other words, the higher the level of education attained, the higher the disposition to take higher volume of loan. The males are disposed to taking higher loan volume than the females; however, the female take a higher share (78%) of all respondents in line with the practice of Grameen Bank of Bangladesh (Yunus, 2003).

In terms of marital status, the married form the modal group (78.6%), while the modal amount of loan received remains ₦20, 000 - ₦39, 999 as for all the other groups. However, the singles

receive the highest average loan amount of almost ₦140, 000; followed by the Divorced/Separated/Widowed respondents who received an average amount of ₦43, 250; while the married received an average of ₦42,600. Those in wage employment (perhaps, because they are likely to be more formally educated than the self-employed) receive a higher volume of average loan (₦109,643) than the self-employed (₦ 44,442) who form the modal group (91%) as compared to those in wage employment and the Others (unclassified) categories which are made up of 8.4% and 0.6% respectively. Among the different business classifications, the traders appear to be most disposed (60%) to taking loan facilities than the other categories while the Supplier/Contractors receive the highest loan volume (₦59,200) than the others.

Among the different MFIs that are patronized by the respondents to this survey, LAPO represents the single most important one among them all as it served 73.2% of all loan receiving respondents giving an average loan amount of ₦ 27,579 while the remaining MFIs account for 26.8% of respondents. However, the others give a rather higher average loan amount of ₦127, 067 which is almost five times the one being given by LAPO. Disaggregated by religious affiliation, the Christians are more disposed to receiving loans (76.8%) relative to those in other religions (23.2%). The respondents from the Western part of Nigeria have the greatest propensity to take loans (60.6%) as compared to those from the East (26.8%) and the North (12.6%). The MFIs in Lagos State grant loans to more respondents (82.1%) than those in Ogun State (17.9%).

4.2 Determinants of Loan Demand

To assess, in quantitative terms, the determinants of demand for loan facilities by the respondents in the MFIs, a regression estimation of the amount of loan received was carried out on several explanatory variables as specified in chapter 3 of this study. The result of the Ordinary Least Squares regression is reported as Table 4.2. The table reports the regression estimate with intercept, meaning that the constant term was computed and thus not suppressed to be equal to zero and as such, the coefficient of each variable measures the differential impact between the variable in question and the variable in the reference category. The reference categories for each set of dummy variables are excluded in the regression computation to avoid the dummy variable trap phenomenon (Gujarati, 2009, p. 281). For the regression estimate, the reported R^2 (0.389), Adj. R^2 (0.282) and the F-statistic (3.639 with p-value of 0.000) suggested that the model achieved a fairly good fit.

As expected *apriori*, the amount of loan received is found to be negatively related to the rate of interest. However, this is not found to be statistically significant as revealed in Table 4.2. In other words, loan demand is interest rate insensitive and as such the interest rates do not influence (in a statistically significant sense) the volume of loan that is received by the customers of MFIs. This financial behavior is probably premised on the Cost versus Availability doctrine by which in Nigeria and many developing countries Availability doctrine tends to influence financial behavior more than cost doctrine, whereas it ought to be the other way round, other things being equal. Of all the education dummies, the Graduate (and its equivalent such as

HND) and Post-Graduate education dummy is statistically significant in its impact on loan demand. Since the 'No-schooling' group is the reference category, the regression result shows that the respondents in the graduate and postgraduate educational category demand more loan amount than the benchmark category, since only those that are in Graduate and Post graduate categories have the differential slope coefficient being different from zero in a statistically significant sense.

TABLE 4.2

LOAN DEMAND FUNCTION

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	131452.930	42171.632		3.117	.002
	Interest rate on Loan	-1.563	3.909	-.032	-.400	.690
	Trading=1, others zero	-71329.548	27960.551	-.427	-2.551	.012
	Contractor=1, others zero	-66748.916	30354.350	-.304	-2.199	.030
	Fashion=1, others zero	-81457.388	33223.697	-.321	-2.452	.016
	Small mafg+others=1, others zero	-98086.096	40798.007	-.240	-2.404	.018
	Primary educ dummy	21,289.897	25565.314	.110	.833	.407
	Secondary educ dummy	273,17.840	24368.040	.166	1.121	.265
	NCE/OND educ dummy	13,40.478	27735.722	.006	.048	.962
	Graduate and PG educ dummy	123,203.638	40063.893	.301	3.075	.003
	Gender_Male=1	29119.985	14856.183	.152	1.960	.052
	Married =1, others zero	27,913.541	23371.415	.137	1.194	.235
	Single =1, others zero	103,683.863	30975.449	.387	3.347	.001
	Lapo=1, others zero	-44,904.763	15297.035	-.233	-2.936	.004
	Number of years account opened with MFB	1,936.289	4720.316	.033	.410	.682
	Age group dummy for <30 years	-53,215.227	21303.130	-.254	-2.498	.014
	Age group dummy for 30-44 years	2486.926	16182.749	.015	.154	.878
	Christianity=1, others zero	-3,825.451	14726.145	-.020	-.260	.795
	Location Lagos=1, 0 otherwise	-11,879.607	17785.534	-.050	-.668	.505
	Self empt =1 zero otherwise	4,899.688	25347.372	.017	.193	.847
	East=1, others zero	-51,426.118	22544.948	-.261	-2.281	.024

	West=1, others zero	-39,436.188	19196.178	-.231	-2.054	.042
a Dependent Variable: Amount of 1st Loan approved and received						

N= 141
R^2= 0.389
R^2 Adj. = 0.282
F = 3.639
Sig. of F = .000

With respect to the gender of respondents, being a male is positively related to the amount of loan demanded and received. More importantly the males demand higher level of loan amount relative to the females who are the benchmark category, since the differential slope coefficient associated with the variable (Gender: Male=1) is positive. There is no statistically significant difference between the self-employed and those in wage employment (even though those in self-employment have a slightly higher mean loan volume than those in paid employment), while the Christians demand less loan amount than those in other religions. When the region of origin of respondents is considered, the Northerners (the reference group) demand more loans than those from the East and the West parts of Nigeria.

Age and volume of loan received are positively related as shown by the differential slope coefficients of the age dummies. However, relative to the reference category (Age 45 years and over), those in age group 30-44 years received the greatest loan amount, followed by those in the reference group while those less than 30 years received the least. In terms of statistical significance, it is only those in age group <30 years that have their differential coefficient significantly different from those of the reference category. In other words, there is no statistically significant difference between the loan amounts received by those in age groups 30-44 years and 45 years and over. The single (never married category) get more loan amount than the reference group which is the Divorce/Separated/Widowed group, while there is no statistically significant difference between the married and the benchmark category.

Three MFI-related variables are included in the model. The first one is the interest rate that has been discussed earlier and it is found to be negatively related to loan demand as expected, but found not to be significantly different from zero in the statistical sense. The second variable is the type of MFI being used by the respondents whether it is LAPO or any other ones. Those who are customers of LAPO get less loan amount than those in other MFIs (since the differential coefficient is negative and statistically significant) even though LAPO has a wider reach than the others as shown in Table 4.2 above. The third MFI-related variable is the number of years the respondent has maintained an account with the MFI of choice. This variable was found to be non-sensitive to loan amount demanded and received, as its coefficient is not significantly different from zero. Business-related variables included in the model are type of business

engaged in, and the location of business and/or other respondents. The location of business is insensitive to loan demand since the differential coefficient is not significantly different from zero (Table 4.2) while all the slope differential coefficients of all types of business being run are statistically significant at 95% confidence level. The excluded category (others, unclassified) receive the largest loan volume, followed by the Supplier/Contractors, then the Traders, while those in Tailoring/Fashion Designing receive the least loan amount.

4.3 Loan Demand Probability Function

Given our findings in the foregoing section, this study examined those personal characteristics of the respondents that allow one to predict the probability of either applying for and receiving a loan from the MFI or otherwise. To this end, a two-pronged approach was adopted. First, a descriptive analysis of the factors distinguishing loan receivers from those who did not was carried out using the empirical evidence provided in Table 4.3.1; and second, a probability function was specified and estimated and the result is as shown in Table 4.3.2.

TABLE 4.3.1
DISTRIBUTION OF RESPONDENTS BY WHETHER OR NOT THEY HAVE EVER RECEIVED ANY LOAN FACILITIES

CHARACTERISTICS		RECEIVED LOAN?			
		YES, I DID (%)	NO, I NEVER DID (%)	TOTAL	
				Number	%
AGE	<30	70.5	29.5	44	19.4
	30-44	61.6	38.4	138	60.8
	45+	60.0	40.0	45	19.8
	ALL (No.); %	**(146) 64.3**	**(81) 35.7**	**227**	**100**
EDUCATION	NONE	70.6	29.4	17	7.5
	PRY	75.6	24.4	45	19.3
	SECONDARY	59.1	40.9	93	41.0
	POST SECONDARY	62.5	37.5	72	32.2
GENDER	MALE	58.5	41.5	65	28.6
	FEMALE	66.7	33.3	162	71.4
MARSTAT	SINGLE	56.4	43.6	39	17.2
	MARRIED	66.1	33.9	171	75.3
	DIVORCED/SEP/WID.	64.7	35.3	17	7.5
NATURE OF EMPLOY-MENT	WAGE	50.0	50.0	40	17.6
	SELF	67.4	32.6	184	81.1
	OTHER				

TYPE OF BUSINESS	TRADING	66.9	33.1	118	52.0
	SUPPLIER/CONTRACTOR	87.5	12.5	32	14.1
	TAILORING/FASHION	60.0	40.0	30	13.2
	OTHERS	56.0	44.0	47	20.7
MFI	LAPO	73.2	26.8	149	68.0
	OTHERS	47.4	52.6	70	32
RELIGION	ISLAM	62.7	37.3	63	27.8
	CHRISTIANITY	65.9	34.1	164	72.2
STATE OF OPERATION	LAGOS	82.1	17.9	145	63.9
	OGUN	32.9	67.1	82	36.1
STATE OF ORIGIN	NORTH	57.1	42.9	21	9.3
	EAST	69.8	30.2	53	23.6
	WEST	63.6	36.4	151	67.0
	ALL (No.); %	**(145) 64.4**	**(80) 35.6**	**225**	**100**

Source: Author's Field Survey 2010

In total, one hundred and forty-six respondents which represent 64% of those that responded to the question on loan receipt have ever taken loan while the remaining 81, representing 36% have never. With respect to age, those who are the most disposed to receiving loans are the prime-aged individuals in the age range of less than 30 years which accounts for a within group percentage of 70.5%, followed by about 62% of those in age group 30-44 years while those 45 years and over that have ever received loan facilities are 60%. On the contrary, those that never have applied for loan are predominant among the 45 years and over age group (40%), followed by those in 30-44 years age cohort (38.4%) while those less than 30 years account for 29.5%. Thus age groups and having received loan facilities are positively related while there is an inverse relationship between age groups and never having applied for and received loan facilities.

With respect to formal educational qualifications, those with primary education are the most disposed to demand credit facilities from the MFIs as they constitute 75.6% of the total number in that group, while those with secondary education (40%) are the dominant group that are not disposed to using the loan facilities of microfinance banks. Women (66.7%) patronize the MFIs loan facilities better than the men; the married has a 66% patronage of MFIs loan facilities while those in self-employment have a greater disposition towards obtaining credit from MFI as compared to those in wage employment who perhaps have other means (e.g soft loan from their employers) of meeting their financial demands.

In terms of location, over 80% of those in Lagos State receive micro-credit while the majority of respondents in Ogun State (67%) have never applied for credit. The Supplier/Contractors are prominent in credit demand as 87.5% of those that have received credit are from that business

group. With respect to state of origin, those from the Eastern Nigeria have the highest propensity to demand micro-credit as about 70% of them have demanded and received micro loans.

Table 4.3.2 reports the result of the probability function that was estimated for those that have ever received credit and those that have not. The dependent variable for the model is binary (0,1) and having ever received loan facilities from the MFI is scored 1, while those that have not, are scored zero. Ten basic variables were used in the estimation of the regression equations – but these have been expanded to twenty-eight by the use of dummy variables. For the sub-categories of the main variables, one from each of them has been excluded to prevent the usual dummy-variable trap phenomenon in regression analysis involving dummy variables. For example, among the age groupings used in the analysis, the cohort of age 45 years and over was excluded; also the North was excluded from the region of origin variable while Islamic religion was excluded from the Religious affiliation variable, among several others. The regression estimates in Table 4.23 are to be read as the probability, relative to the excluded group, that a person with some given characteristic will prefer to demand and receive micro-credit facilities from the MFI rather than otherwise. All but one of the variables entered into the regression equation are binary (that is: 0, 1) variables. The only variable that is non-binary is the number of years the respondent has been banking with the MFI. The coefficient estimates obtained for the variables in several categories (e.g. age) are the differential coefficients from the excluded categories. This is because the constant term was not constrained to be equal to zero. The effects of the excluded variables have been absorbed by the constant term.

TABLE 4.3.2
LINEAR PROBABILITY FUNCTION FOR LOAN REQUEST FROM MFI

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta	B	Std. Error
(Constant)	.426	.233		1.827	.069
Age group dummy for <30 years	.174	.105	.143	1.650	.101
Age group dummy for 30-44 years	.051	.079	.052	.646	.519
East=1, others zero	.064	.109	.057	.589	.557
West=1, others zero	.087	.098	.086	.887	.376
Lapo=1, others zero	-.217	.074	-.211	-2.925	.004
Se lf empty =1 zero otherwise	-.038	.106	-.031	-.361	.718
Location Lagos=1, 0 otherwise	.446	.063	.443	7.086	.000
Christianity=1, others zero	-.023	.066	-.022	-.347	.729

Number of years account opened with MFB	.013	.022	.037	.580	.562
Married =1, others zero	-.019	.117	-.017	-.163	.871
Single =1, others zero	.028	.143	.022	.197	.844
Primary educ dummy	-.015	.122	-.012	-.120	.905
Secondary educ dummy	-.112	.111	-.115	-1.009	.314
NCE/OND educ dummy	.031	.122	.026	.251	.802
Graduate and PG educ dummy	.122	.152	.072	.800	.425
Trading=1, others zero	.131	.103	.136	1.271	.205
Contractor=1, others zero	.315	.124	.229	2.533	.012
Farming=1, others zero	.064	.232	.018	.278	.782
Fashion=1, others zero	.125	.124	.090	1.011	.313

Dependent Variable: Obtained Loan=1, zero otherwise
N=212
R^2= .331
Adj R^2= .265
F = 5.032
Sig. of F. = 0.000

The nineteen explanatory variables entered into the model generated R^2 of 33% and an adjusted R^2 of 26.5% meaning that about 27% of the changes in the dependent variable are explained by the explanatory variables included in the model. At the F-level of 5.032 (p-value =0.000), a significant association exists between the dependent and the independent variables using F-statistic's criterion.

In all, only three of the variables are significantly different from zero at the 5% critical level or better, while the others are not. With respect to the different age groups, all differential coefficients are positive which shows that relative to the excluded or reference category, each of the age-cohorts included in the model has higher probability of receiving credit from the MFIs. However, none of the differential variables is statistically significant, showing that age of respondents does not affect the probability of loan demand.

The Microfinance variables (Type of MFI, and Number of years of operating an account with the MFIs) included in the model shows some interesting results. With respect to the type of institution used by the respondents, those using LAPO have lower probability of receiving loan relative to those in other MFIs. This is because the differential coefficient of the LAPO variable is negative (-0.217) and statistically significant at the 99% level of confidence. The other MFI-related variable is the number of years account is opened with the MFI whose coefficient is not statistically different from zero. This shows that the number of years account is opened does not affect the probability of credit demand by the respondents.

The Business-related variables (Type of Micro-enterprise, and Location of business) have one each of the sub-categories of the variables as being statistically significant. With respect to Business location, those in Lagos have a higher probability of micro-credit demand relative to those in Ogun state, which is the benchmark category. The Supplier/Contractor business variable which has a slope differential coefficient of 0.315 and highly statistically significant shows that those in that business have higher probability of securing microcredit from the MFIs relative to the reference category. The group of micro-entrepreneurs might have established a tradition of prompt loan repayment and thus have improved access to microcredit facilities offered by the MFIs, relative to those in other type business.

4.4 Utilization of Loan Facilities Received from MFIs

The main importance of opening an account with the Microfinance Institutions by the respondents is to be able to, among other things, benefit from microfinance opportunities available with MFIs as opposed to commercial banks which hardly lend to the poor due to the usual problems associated with adverse selection, information asymmetry, and moral hazard (de Aghion and Murdoch, 2005)[1]. A high proportion of the respondents in this study report appreciate microcredit received (in form of loans from MFIs) as discussed in the previous section. Against the backdrop of the orthodox view that the poor usually apply financial assistance (loan, aid, etc) towards unproductive ventures, this study examined the microcredit uses among the respondents in the study locations. The first set of three loans (or less for those that have not received up to the number specified) received by the respondents were investigated for the uses to which they were put as self-reported by the respondents.

TABLE 4.4.1
THE DISTRIBUTION OF MFIs BY THE AVERAGE AMOUNT OF LOAN GRANTED TO CUSTOMERS

MICROFINANCE INSTITUTIONS	SELECTED STATISTICS	Amount approved and paid: 1st loan (₦)	Amount approved and paid: 2nd loan (₦)	Amount approved and paid: 3rd loan (₦)
Other MFIs	Mean	127,066.67	160,681.82	65,500.00
	N	45	22	16
	Std. Deviation	194,241.345	363,777.455	56,083.271
	Sum	5,718,000	3,535,000	1,048,000
LAPO	Mean	27,578.86	35,602.41	58,227.27
	N	123	83	66
	Std. Deviation	15,038.155	8,882.622	26,343.760
	Sum	3,392,200	2,955,000	3,843,000
Total	Mean	54,227.38	61,809.52	59,646.34

	N	168	105	82
	Std. Deviation	109,811.885	171,463.054	33,879.005
	Sum	9,110,200	6,490,000	4,891,000

Source: Field Survey, 2010

Table 4.4.1 shows the average amount of loan received by respondents in LAPO and the other MFIs covered by this study. As reported earlier, LAPO has the widest reach, covering one hundred and twenty-three customers of those receiving first loan, an average of which is ₦27,578. For the second loan 83 customers receiving an average loan amount of ₦35,602, while the third loan accrue to 66 applicants with an average amount of ₦58,227. For LAPO, the number of loanees reached decreases with the number of loans while the average amount granted increases. For the other MFIs, the average amount granted to each loanee is larger but the reach is lower compared to LAPO. On the aggregate, a total number of one hundred and sixty-eight, one hundred and sixty-five and eighty two respondents received an average loan amount of ₦109,812; ₦117,423; and ₦33, 879 for each of the three times loan was reported received respectively. In total, all the MFIs have granted a total loan volume of ₦9.1 million, ₦6.5 million, and ₦4.9 million in each of the three loans granted respectively.

The varieties of loan utilization envisaged at the planning stage of this study are as follows:

(a) The meeting of various social obligations both to self, and/or members of immediate and extended families; such as buying new dresses, financing wedding/burial; birthdays, and child-naming ceremonies;

(b) The purchase of consumer durables such as household furniture, Radio &Television sets, Radio, Telephone and other communications gadgets, and so on;

(c) The need to start a new business, finance the expansion of existing ones or to meet temporary shortfall in cash in existing businesses;

(d) For the acquisition of land and/or buildings either for own use or for hire.

(e) To obtain funds for the payment of schools fees for own or family member's children;

(f) To meet emergency situation not earlier planned for; such as the payment of hospital bill arising from road traffic accident and/or sudden illness of self, family members or close community members.

TABLE 4.4.2
FREQUENCY DISTRIBUTION OF RESPONDENTS BY THE PER CENTAGE UTILISATION OF FIRST LOAN RECEIVED

		Frequency	Valid Per cent
Valid	Business Expansion	234	91.8
	Children Education	4	1.6
	land/Asset acquisition	7	2.7
	Consumer durable goods	3	1.2

	Emergency needs	6	2.4
	Other usage	1	.4
	Total	255	100.0
	N	321	

Source: Field Survey, 2010

Tables 4.4.2 to 4.4.4 show the frequency distribution of Loan utilization with respect to the first three loans obtained by the respondents in this study. From Table 4.4.4, it is clearly shown that expenditure on Business development was the major item on which the first loan was utilized as 91.8% of the respondents belong to this category. The utilization of the third loan followed almost the same pattern as that of the second as Business Expansion topped the priority of responding loanees (70.2%). This is followed, though remotely by Children education priority which took the attention of 10.6% of the responding loanees; the third most important places were taken by Land/Asset acquisition (6.4%) and Consumer Durables (6.4%). In general, business expansion dominated the loan utilization in each of the three loans received by the respondents. This usage pattern was most dominant in Loan 1, which exhibited almost 92% of all forms of loan utilization distribution, while it is least dominant in the second loan with 67% distribution. The second noticeable pattern of loan utilization was for children education which was most dominant in Loan 2 (14%) and was followed by a 10.6% utilization rate in Loan 3 while it was as low as 1.6% utilization rate in Loan 1.

TABLE 4.4.3
FREQUENCY DISTRIBUTION OF RESPONDENTSBY THE PER CENTAGE UTILISATION OF SECOND LOAN RECEIVED

		Frequency	Valid Per cent
Valid	Business Expansion	43	67.2
	Children Education	9	14.1
	land/Asset acquisition	4	6.3
	Consumer durable goods	2	3.1
	Medical treatment	1	1.6
	Emergency needs	5	7.8
	Total	64	100.0
Total		321	

Source: Field Survey, 2010

The next most important item of expenditure was Land/Asset acquisition (2.2%) while the last most important item was Emergency needs (1.9%). For the second loan received by the respondents, Table 4.4.3 shows that as it is the case with the utilization of the first loan received, business expansion was the most dominant (67%) utilization objective. This was followed by Children education (14.1%) while the third most important item was Land/Asset acquisition.

TABLE 4.4.4
FREQUENCY DISTRIBUTION OF RESPONDENTS BY THE UTILISATION OF THIRD LOAN RECEIVED

		Frequency	Valid Per cent
	Business Expansion	33	70.2
	Children Education	5	10.6
	land/Asset acquisition	3	6.4
	Burial/festial ceremonies	1	2.1
	Consumer durable goods	3	6.4
	Emergency needs	1	2.1
	Other usage	1	2.1
	Total	47	100.0
	N	321	

Source: Field Survey, 2010

For analytical purpose, the above loan utilization types have been sub-divided into two functional categories which are: (i) Consumption related purposes, and (ii) Development-related Purposes.

TABLE 4.4.5
DISTRIBUTION OF LOAN USAGE PATTERN AMONG RESPONDENTS

LOAN DESCRIPTION	LOAN USAGE PATTERN (%)		NO. OF RESPONDENTS
	Development Uses	Consumption Uses	
First Loan	96.5	3.5	254
Second Loan	87.5	12.5	64
Third Loan	89.1	10.9	46
Expected (Next) Loan	92.1	7.9	39

Source: Field Survey, 2010

Table 4.4.5 shows the distribution of respondents by the two-way classifications of loans utilization in the survey location. The uses of loans received for development purposes predominated with a percentage utilization rate of between 87.5% (second loan) and 96.5% (first loan). The utilization of loan for consumption purposes was more dominant with the second loan (12.5%) and lowest with the first (3.5%). In addition to the loan facilities already received and expended, the survey went further to inquire of the expected utilization of the next (expected) loan facility. The response was not different from the previous use of loan. While 92.1% expected to use the next loan for development purposes, only 8% want to disburse such loan for consumption purposes.

Table 4.4.6 shows the pattern of loan utilization by some selected characteristics, both of the individual respondents and the micro-enterprises. Due to relatively low level of respondents, only the first two previous loans received (first and second loan facilities) as well as the next (expected) loan were analyzed for utilization and expected utilization patterns respectively. With respect to the age of the respondents, those within the age-group of 45 years and above are the most committed to development utilization of loan facilities that made 98.1% and 95% of the first and second loan facilities to development uses. This contrasts with the younger age group (< 30 years) whose devotion to development utilization of loan facilities are 70% and 82.6 for the second and the first loans respectively. However, this same age-group has the highest loan utilization rate for consumption which is as high as 30% for the second loan facility received. It is noteworthy that across all groups, the first and the next (expected) loans are heavily concentrated on development uses relative to that of consumption.

For all the loan facilities, it is those with the lowest educational level that are the most committed to personal and business development 97.2%; and 94.1% of them committed their first and second loan facilities received to development uses, while all of them expected to commit the next loan facility for the same purpose. Personal and Business development for this group of respondents is considered to be important since the probability of their alternative employment in the formal sector might be dim due to their low level of formal education. In fact, a further analysis of the survey data shows that 89.9% of those with up to primary education are in self employment while only a little over 10% are in wage employment. Since micro-enterprises represent their mainstay, it is expected that personal and business development should take a prime place in the utilization of the loan facilities available to them. It is thus not surprising to observe from Table 4.4.6 that the self-employed spend more of their loan facilities on development as compared to those in wage employment who have relatively higher propensity for consumption uses of the loan facilities obtained from their MFIs.

TABLE 4.4.6
DISTRIBUTION OF RESPONDENTS BY PATTERNS OF LOANS UTILISATION

CHARACTERISTICS	LOAN UTILISATION PATTERN								
	DEVELOPMENT PURPOSES (%)			CONSUMPTION PURPOSES (%)			TOTAL (No. of Respondents)		
	First Loan	Second Loan	Next Loan	First Loan	Second Loan	Next Loan	First Loan	Second Loan	Next Loan
AGE:	**96.5**	**87.5**	**92.3**	**3.5**	**12.5**	**7.7**	**254**	**64**	**39**
Less than 30 Years	92.0	70.0	100.0	0.8	30.0	0.0	50	10	2
30-44 Years	97.4	88.2	92.3	2.6	11.8	6.7	151	34	26
45 Years and over	98.1	95.0	90.9	1.9	5.0	9.1	53	20	11
EDUCATION:									
Up to Primary	97.2	94.1	100.0	2.8	5.9	0.0	72	17	7
Secondary	97.1	81.8	89.5	2.9	16.2	10.5	105	22	19
Post-Secondary	94.8	88.0	92.3	5.2	12.0	7.7	77	25	13
GENDER									
Male	95.1	70.6	87.5	4.9	29.4	12.5	61	17	8
Female	96.9	93.6	93.5	3.1	6.4	6.5	193	47	31
MARITAL STATUS									

Single	87.9	66.7	100.0	12.1	33.3	0.0	33	9	5
Married	97.5	90.0	90.0	2.5	10.0	10.0	200	50	30
Divorced/Sep/Wid.	100.0	100.0	100.0	0.0	0.0	0.0	21	5	4
NATURE OF EMPT.									
Self	98.6	91.3	93.9	1.4	8.7	6.1	219	46	33
Wage	82.9	77.8	83.3	17.1	22.2	16.7	35	18	6
TYPE OF BUSINESS							239	43	34
Trading	99.3	92.0	95.2	0.7	8.0	4.8	138	25	21
Supplier/Contractor	94.3	71.4	66.7	5.7	26.6	33.3	35	7	3
Tailoring/Fashion Design	100.0	100.0	100.0	0.0	0.0	0.0	32	10	5
Others	91.2	81.8	60.0	8.8	18.2	40.0	34	11	5
MFI									
Lapo	97.8	89.7	93.1	2.2	10.3	6.9	180	39	29
Others	92.2	82.6	87.5	7.8	17.4	12.5	64	33	8
RELIGION									
Islam	100.0	95.2	100.0	0.0	4.8	0.0	67	21	12
Christianity	95.2	83.7	88.9	4.8	16.3	11.1	187	43	27
STATE OF OPERATN									
Lagos	100.0	100.0	75.0	0.0	0.0	25.0	146	11	4
Ogun	91.7	84.9	94.3	8.3	15.1	5.7	108	53	35
REIGION OF ORIGIN	**96.4**	**87.1**	**92.1**	**3.6**	**12.9**	**7.9**	**251**	**62**	**38**
North	92.0	71.4	100.0	8.0	28.6	0.0	25	7	1
East	95.5	86.7	80.0	4.5	13.3	20.0	66	15	5
West	97.5	90.0	93.8	2.5	10.0	6.3	160	40	32

Source: Field Survey, 2010

In terms of gender of the respondents, the females have the greater propensity to use their loan facilities (both received and expected) for development purposes as compared to their male counterparts. For the first and second loan facilities received, the married are more focused on development issues than the singles who are more committed to consumption. Customers of LAPO are more disposed to spending loans received for developmental purposes rather than consumption as compared to customers of other microfinance institutions. In terms of religion, the adherents of the Islamic religion are more developmental oriented in the allocation of both the received and expected loan facilities from the MFIs, while respondents from the Southwest Nigeria are the most development oriented in the loan facilities received from MFIs. In general, the result from this survey shows that micro-credit to MFI customers are channeled into developmental purposes mostly, as well as consumption purposes.

5.1 Summary and Conclusion

The study examined the nature and significance of Microfinance banks' services to customers paying particular attention to the MFIs' basic intermediation functions of funds mobilization, credit allocation and distribution among respondents. The volume and determinants of loan demand were also investigated. The study also explored the economic analysis of loan demand

using the linear probability model. The study further examined the influence of Microfinance on personal welfare of respondents.

5.1.1 Loan demand is interest rate insensitive

It was also established, while assessing the determinants of loans received by customers, that loan demand is interest rate insensitive. Hence, it is the availability rather the cost of loan (as measured by the magnitude of interest rate) that influences the volume of loan demanded and received by the customers of MFIs. This can be explained, premised on the Cost versus Availability doctrine. In Nigeria and some other African countries, availability doctrine tends to influence financial behaviour more than cost doctrine, whereas by conventional wisdom, it ought to be the other way round, Customers in the graduate and post-graduate category do more business with Microfinance than other categories. Also, male customers demand higher levels of loan amount relative to their female counterparts. The location of a business is also found to be insensitive to loan demand.

Assessing the loan demand probability function, the results showed that the number of years an account has been opened by a customer does not affect the probability of credit demand by the respondents.

5.1.2 Determinants of Loan Demand

The outcome of the study on the determinants of loan demand showed that the kind of business the entrepreneur engaged in, the level of education attained, gender, marital status, age and state of origin are the determinants of loan demand.

Looking at the result critically, it was revealed that the following kinds of business variables; trading, supplier/contractor, fashion designing and small scale manufacturing, all have negative impact on loan demand. This implies that a unit increases in all these variables decrease the level of loan demand and each of them is statistically significant. The result also showed that graduate and post graduate level of education are positive determinant of loan demand. It is also interesting to observe that the variable male gender is a positive determinant of loan demand. Marital status- single is also a positive determinant of loan demand and MFI – LAPO is a positive determinant of loan demand and statistically significant at 1%. This implies that entrepreneurs having account with Lapo are likely to demand for loan, also male entrepreneurs, and single entrepreneurs do the same. It is interesting to note that the number of years for which account has been opened is not a determinant of loan demand.

The result obtained also showed that the variable age group less than 30 years is a negative determinant of loan demand and statistically significant at 5%, while age group 30 – 44 years is not statistically significant. The study also showed that entrepreneurs' state of origin particularly from East and West geographical zone are positive determinants of loan demand and they are statistically significant at 5%. It is interesting to find that location of business and being self – employed is not a determinant of loan demand.

The linear probability function was estimated for those that have ever received loan and those that have not. The result of the linear probability function showed that age of the respondents did not affect the probability of loan demand, since none of the age-cohort is statistically significant. As regards the microfinance variables, the result obtained confirmed that the number of years account is opened does not affect the probability of credit demand. On business related variables, business location-Lagos and supplier/contractor business type have higher probability of securing loan from Microfinance Institutions.

In conclusion, the study has established that microfinance programmes have impacted the businesses and lives of the beneficiaries in several positive ways, particularly in their economic circumstances and access to essential life-enhancing facilities and services. The study has also shown that the number of years a client opened account with MFI, religion, place of business location and self employment are not determinants of loan demand. More research is needed in the area of impact assessments so as to inform the designers of programmes on measures that will ensure maximum benefits both to the MFIs and their clients.

Among other benefits of microfinance, the following are key:

i. In a country where poverty is prevalent like Nigeria, government can use MFIs as a tool for poverty alleviation.
ii. MFIs can foster employment generation through development of entrepreneurial activities in particular for the poor**.**

In countries with formal financial markets like we have in Nigeria, MFI can be used as a way to reach the huge un-served markets which mainly consists of the poor.

5.2 POLICY IMPLICATIONS AND RECOMMENDATIONS

5.2.1 For Microfinance Banks

i. Higher education, having been found to increase the income of the MFI clients: The MFIs clients should therefore, be encouraged by the MFIs to improve on their current level of education by engaging in adult education or life-long learning as this will have the potency to increase their level of income;
ii. MFBs should seek long term capital from the Pensions and Insurance Companies in the country. This will enable them grant larger volume of loan and to greater number of people who will improve their outreach level;
iii. MFIs should ensure and strive to put in place procedures, policies and products that will enhance the participation of both men and women in their various programmes in order to achieve gender responsiveness and equity; and
iv. The MFIs should design appropriate products that are flexible enough to meet the different needs of the poor for both production and consumption purposes.

5.2.2 For Government

ii. Government should urgently tackle the problems of infrastructural development and maintenance. These include electricity, water and efficient transportation system which impact greatly on the standard of living of the people;

iii There should be provision of incentives by government to sustain MFIs in order to further extend their services to the rural areas;

iv. Capacity building of MFIs in Nigeria should be mandatory so as to develop appropriate policies that will enhance sustainability and stability; and

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